

THE OHIO FARM REAL ESTATE SITUATION 1941 TO JUNE 1944

As Indicated By A Study In Sample Counties

by

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SUMMARY AND CONCLUSIONS

1. The farm real estate market continues active, but in most counties of the sample area a seasonal decline in activity prevailed during the second quarter of 1944. (Incomplete information for the third quarter of 1944 indicates a continuance of less activity than prevailed a year ago).
2. Farm real estate prices continued to advance through the first quarter of 1944. During the second quarter some decline in the average price per acre was in evidence, but it is probable that this was due to relatively more activity centering on lands of below average productivity and with only fair to poor improvements.
3. The net movement of land continues to be into the ownership of active farmers. More non-farmers are selling than are buying farm land.
4. The danger of land price inflation which may arise from too extensive borrowing on farm mortgage credit so far has not become generally serious. About 50 per cent of all farm real estate purchases have remained free of mortgage debt. About 70 per cent of all new mortgages given by purchasers in the area studied contained some provision for amortization of the principal. The average buyers equity continues to be about 40 per cent of the purchase price. On the other hand, the amount borrowed per acre has tended to increase about one-half as fast as land prices have risen. Some financial institutions have evidenced the tendency to lower interest rates during the past year.
5. Another focal point of danger continues to be the tendency to bid up the price of land of low productivity more rapidly than the price of land of high productivity.
6. Land with fair building improvements has advanced faster in price than land with good improvements. Land with poor or no improvements has advanced relatively more in price than land with good improvements but less rapidly than land with fair improvements. Evidently the keenest demand has been associated with tracts that have buildings in usable condition, with too little discrimination being given by purchasers to the productive capacity of the land.
7. Recent price trends of different sized tracts do not demonstrate conclusively that any particular size of farm is in particularly stronger demand than other sizes, with the possible exception of what may be considered a small sized family unit (30 to 49 acres).

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The purpose of this report is to supply recent information on the Ohio farm real estate situation. A previous report 2/ published in January, 1944 is supplemented and brought up to date at this time by information more recently assembled.

Farm real estate price inflation has been and continues to be one of the wartime circumstances faced by agriculture. Fortunately, inflationary processes in general have not reached critical proportions although in particular cases prices paid for land and debt obligations assumed by purchasers are far from conservative. Fortunately, such cases are still considered to be exceptions.

Volume of Activity and Price Trends

Dangerous land price inflation exists only when high prices are associated with a high volume of activity. The recent trends of these two factors in a six-county sample area in Ohio are illustrated in Table 1.

Table 1. - Trend in Volume of Sales and in Average Price
Farm Real Estate Transfers in Six County Sample Area*
1941 - July 1943 - By Quarter Years

Year and Quarter	Volume of Sales		Price per Acre	
	Number	Relative Number (Sales 1st Quarter 1941 = 100)	Dollars	Relative Price (1st Quarter 1941 = 100)
1941-1st quarter	272	100	66	100
1941-2nd quarter	214	79	68	103
1941-3rd quarter	231	85	69	105
1941-4th quarter	228	84	69	105
1942-1st quarter	286	105	76	115
1942-2nd quarter	238	87	72	109
1942-3rd quarter	177	65	72	109
1942-4th quarter	228	84	72	109
1943-1st quarter	365	134	81	123
1943-2nd quarter	423	156	81	123
1943-3rd quarter	286	105	85	129
1943-4th quarter	349	128	91	138
1944-1st quarter	428	157	95	144
1944-2nd quarter	324	119	84	127

*Darke, Madison, Muskingum, Medina, Putnam and Seneca.

- 1/ Information on farm real estate transfers has been assembled for the counties of Darke, Madison, Muskingum, Medina, Pike, Putnam, Seneca and Wayne. The major portion of the field work in the five latter counties has been done by the Bureau of Agricultural Economics of the United States Dept. of Agriculture.
- 2/ The Ohio Farm Real Estate Situation 1941 to September 1943. Dept. of Rural Economics and Rural Sociology Mimeographed Bulletin No. 173, January 1944.

Two recent peaks in activity, one in the second quarter of 1943 and the other in the first quarter of 1944, suggested that a runaway land market might be in the making. Activity in the second quarter of 1944, however, exhibited at least a seasonal decline which also was associated with somewhat lower average prices. This can be attributed partially to the relative infrequency of sales of high quality lands. In evaluating the price-volume developments in the second quarter of 1944 it should be observed that land-price advances and the most activity tend to center in the first three months of each year. Off-season sales of the three remaining quarter-years normally tend to be both fewer in number and slightly lower in price unless strong market trends overcome seasonal tendencies. The fact that the average relative price indicated by actual sales of farm real estate, dropped from 144 in the first quarter of 1944 to 127 in the second quarter should not be taken as conclusive evidence that land prices have reached the ultimate peak of the World War II period; although this at least seasonal decline in price and activity is a circumstance indicating increased conservatism. It is presumed that 1944 land prices are to some extent influenced by income received by farmers in 1943. The gross cash income of Ohio farmers in 1943 was the highest in history. But operating expenses were also higher and net farm incomes generally were less than in the previous year, according to farm account records assembled by the Department of Rural Economics.

Who Is Selling Farm Real Estate?

Of each one hundred farms sold during the second quarter of 1944, active farmers sold twenty-five farms, non-farmers 46, estates 21 and corporations or governmental agencies 8, according to the information summarized in Table 2. It is noteworthy that non-farmers have sold a higher proportion of farm real estate tracts in recent months than during the three previous years whereas active farmers have sold less frequently.

Table 2. - Distribution of Sales in Specified Periods
by Designated Classes of Owners
Eight County Sample Area*

Period	Number and percentage of sales by designated classes of owners									
	Active Farmer		Non-farmer		Estate		Corporation or Government		Total Sales Classified	
	no.	pct.	no.	pct.	no.	pct.	no.	pct.	no.	pct.
1941	47	18	103	40	95	37	14	5	259	100
1942	193	30	238	37	169	26	44	7	644	100
1943	320	31	387	37	247	24	81	8	1035	100
1st qtr. 1944	100	29	164	48	63	18	17	5	344	100
2nd qtr. 1944	53	25	98	46	46	21	18	8	215	100
3 1/2 yrs. Total	713	28	990	40	620	25	174	7	2497	100

*Darko, Madison, Muskingum, Medina, Pike, Putnam, Seneca and Wayne.

Who Is Buying Farm Real Estate?

The net movement of farm ownership continues to be in the hands of purchasers who previously have been owner-operators or farm tenants. During the first six months of 1944 nearly two-thirds of the purchasers of farm real estate were either owner-operators or farm tenants. On the other hand, non-farm individuals continue to be a very important segment of farm buyers. According to information assembled as to the intentions of non-farm purchasers of farm real estate, about one out of three intends to personally operate the land; the other two will lease to others, at least for the time being.

Table 8. - Distribution of Transfers of Farm Real Estate
In Specified Periods to Designated Classes of Purchasers
Eight County Sample Area*

Period	Owner Operator		Tenant		Non-farmer		Total trans- fers Classified	
	no.	pct.	no.	pct.	no.	pct.	no.	pct.
1941	82	35	38	16	157	49	237	100
1942	217	32	150	22	309	46	676	100
1943	337	34	225	22	446	44	1008	100
1st qtr. 1944	114	41	76	27	92	32	282	100
2nd qtr. 1944	72	38	37	20	80	42	189	100
3 1/2 yrs. Total	822	34	526	22	1044	44	2392	100

*Darke, Madison, Muskingum, Medina, Pike, Putnam, Seneca and Wayne.

Mortgage Debt

The most serious effects of land price inflation fall on buyers who rely on borrowed capital to finance the purchase of land. The comparisons drawn in Table 4 are intended to measure the trends in mortgage debt in order to indicate whether the debt structure associated with the purchase of farm real estate is becoming a danger point. The following statements sum up the situation as indicated by this study:

1. The relative frequency in the use of mortgage credit has remained about constant during the past three and one-half years; about one-half of all farm purchases being partly financed with borrowed capital.
2. Because more farms have been purchased in recent years than normally the total number of new mortgages outstanding is growing steadily (although the number of old mortgages being paid off is larger).
3. The average size of loan per acre has advanced about one-half as fast as the purchase price per acre.
4. As a consequence the average buyers equity when a mortgage was given has remained about constant or at a figure ranging around 40 per cent of the purchase price.

Table 4. - Comparison of Mortgaged and Mortgage Free Tracts,
Farm Real Estate Purchases, Eight County Sample Area,*
1941 to June 30, 1944

		1941	1942	1943	1st quarter 1944	2nd quarter 1944
Tracts mortgaged:	number	206	366	942	290	211
Tracts not mortgaged:	"	203	313	824	288	252
Proportion of tracts mort-						
gaged:	percent	50	55	53	50	46
Average size of tract mort-						
gaged:	acres	93	80	79	86	84
Average size of tract not						
mortgaged:	"	96	72	74	79	75
Average purchase price per						
acre when mortgaged:	dollars	69.02	74.25	80.08	96.58	82.15
Average purchase price per						
acre when not mortgaged:	"	66.49	68.81	74.45	79.28	77.87
Average debt per acre of mort-						
gaged tracts:	"	46.83	44.34	49.35	55.63	51.40
Average buyers equity in mort-						
gaged property:	percent	33	40	38	42	37
Relative change in purchase						
price per acre						
(1941 price = 100): -						
mortgaged tracts	percent	100	106	116	140	119
tracts not mortgaged	"	100	103	112	119	117
Relative change in debt per						
acre on mortgaged tracts:	"	100	95	105	119	110

*Darke, Madison, Medina, Muskingum, Pike, Putnam, Seneca and Wayne

Table 5. - Sources of Credit: Farm Real Estate Purchases
1943 and First Two Quarters 1944 in Eight Counties*

	1943	1st quarter 1944	2nd quarter 1944
	Percent	Percent	Percent
Individual	35	34	33
Commercial Bank	33	41	31
Insurance Company	5	7	8
Federal Land Bank and			
Land Bank Commissioner	5	4	3
Savings and Loan, Building			
and Loan and			
Miscellaneous Institutional Lenders	22	14	25
*Darke, Madison, Medina, Muskingum,	100	100	100
Pike, Putnam, Seneca and Wayne.			

An outstanding difference between the farm real estate market of World War I and World War II is that in the latter period the use of credit to finance land purchases has so far remained on a fairly conservative basis, and the total amount of outstanding mortgage debt has been reduced. Other favorable circumstances at the present time are: (a) some provision for partial or full amortization in about 70 percent of the loans; (b) relatively favorable interest rates; (c) a period of repayment sufficiently long to permit orderly liquidation of at

least part of the debt out of farm income. The following classification of loans in a few counties illustrates prevailing loan terms.

Table 6. - Interest Rates on New Farm Mortgage
By Type of Lender, Three Sample Ohio Counties*
Second Quarter 1944

Type of Lender	Total Loans Number	Percent of total loans by each type of lender, by interest rates					
		3%	4%	4.5%	5%	5.5%	6%
Individuals	20	-	20	10	50	-	20
Commercial banks	12	-	33	-	42	-	25
Insurance companies	4	-	50	50	-	-	-
Federal Land Bank and L.B.C.	4	-	50	-	50	-	-
Others	27	26	-	8	36	4	26
Total	67	10	18	9	40	2	21
Interest rate not given	12						
Grand total	79						

*Darke, Madison and Muskingum

Table 7. - Arrangements for Repayment of Principal Specified in
New Farm Mortgages, by Type of Lender, Three Sample Ohio Counties*
Second Quarter 1944

Type of Lender	Total Loans Number	Percent of total mortgages		
		Fully Amortized	Partially Amortized	No Amor- tization
Individuals	24	17	25	58
Commercial banks	14	8	50	42
Insurance companies	4	25	75	-
Federal Land Bank and L.B.C.	4	100	-	-
Others	33	-	-	9
Total	79	51	20	29

*Darke, Madison and Muskingum

Table 8. - Proportion of New Farm Mortgages Made for Specified
Lengths of Time, By Type of Lender, Three Sample Ohio Counties*
Second Quarter, 1944

Type of Lender	Total cases Number	Length of Mortgage					
		1 yr. or less	2,3 or 4 yrs.	5 yrs.	6,7,8 or 9 yrs.	10 yrs.	Over 10 yrs.
Individuals	18	17	22	56	-	6	-
Commercial banks	12	17	8	25	-	48	8
Insurance companies	4	-	-	-	-	100	-
Federal Land Bank and L.B.C.	4	-	-	-	-	25	75
Others	9	-	-	11	-	-	89
Total	47	11	11	30	-	23	25
Length of mortgage not given	32						
Grand total	79						

*Darke, Madison and Muskingum

Price Trends Associated With Different Degrees of Productivity

The most unfavorable circumstance associated with the current price structure of farm real estate is that farms in the lower range of productivity have continued to advance in price more rapidly than have more productive farms. Our experience during the last 25 years has demonstrated that farmers on land of low productive capacity suffer more financial difficulties when farm products prices decline than farmers on more productive land in the same area. This condition has been most prevalent as a rule in areas where much land is considered good or excellent and other land is of only fair or poor quality. Under such circumstances it happens that some poor land is purchased at too high a price as measured by its productive capacity; such purchases are most frequent when land prices are rising, and land priced relatively low may look like a bargain.

Table 9. - Price Trends Associated With Different Grades of Productivity,
Farm Real Estate Sales In Five Sample Counties*
1941 to 1st Quarter 1944

Grade of Productivity**	Average price per acre			1st str.
	1941 dollars	1942 dollars	1943 dollars	1944 dollars
Above average productivity	89	89	108	114
Average or lower productivity	50	58	70	79
Relative change in price (1941 price = 100)				
	percent	percent	percent	percent
Above average productivity	100	100	121	128
Average or lower productivity	100	116	139	158

*Darko, Madison, Muskingum, Putnam and Seneca.

**Determined from the productivity rating assigned to each farm by the Agricultural Adjustment Agency.

The comparisons presented in Table 9 indicate that in the sample area studied, land classified as above average productivity has advanced from an average sale price of 89 dollars per acre in 1941 to 114 dollars per acre in the first quarter of 1944, a relative increase in price of 28 per cent. In the same period land classed as average or below average in productivity advanced in price from 50 dollars to 79 dollars per acre, a relative increase of 58 per cent.

Price Differences Associated With Various Grades of Building Improvements

Farm buildings on good land are usually of better quality than farm buildings on poor land. This circumstance is illustrated by the comparisons presented in Table 10. Also the tracts with good buildings average larger in size than the tracts with fair, poor or no buildings. In respect to price trends, tracts of farm land with fair buildings have advanced in price 67 per cent since 1941, tracts with poor or no buildings, 48 per cent and tracts with

good buildings have advanced the least, 27 per cent. Evidently the most active market demand has centered on farms equipped with at least a usable set of buildings and relatively small acreage.

Table 10. - Price Differences and Trends Associated
With Different Grades of Building Improvement
Farm Real Estate Sales In Five Sample Counties,* Ohio,
1941 to First Quarter 1944

Classification of Tracts Sold **	1941	1942	1943	1st. quarter 1944
Tracts with good buildings:				
Number of sales	102	130	155	62
Average size of tract--acres	98	95	109	118
Average productivity--index	126	123	129	133
Average price per acre--dollars	88	82	109	112
Relative change in price	100	94	124	127
Tracts with fair buildings:				
Number of sales	144	152	340	105
Average size of tract--acres	102	82	84	80
Average productivity--index	116	119	123	127
Average price per acre--dollars	63	73	89	105
Relative change in price	100	115	141	167
Tracts with poor or no buildings:				
Number of sales	61	75	353	126
Average size of tract--acres	73	69	63	66
Average productivity--index	113	114	112	116
Average price per acre--dollars	50	56	63	74
Relative change in price	100	113	126	148

*Darke, Madison, Muskingum, Putnam and Seneca.

**As determined by the tax valuation of buildings on individual tracts.

Recent Price Trends on Different Sized Tracts

The question may be raised as to the intensity of demand for different sized farms. It is evident that a substantial part of the farm real estate market has been associated with the demand for small farms on the part of industrial employees and others who may be concerned with a place to live as well as with an opportunity to farm. It is frequently mentioned that the active demand for housing in urban areas has tended to enhance the value of housing in rural areas. An analysis of sales in five counties for the period of October 1943 to June 1944 indicates that the above mentioned influence has had a relatively small effect on price trends of tracts of land containing 10 or more acres. Tracts containing 30 to 49 acres registered more increase in price from the last quarter of 1943 to the first quarter of 1944 than either larger or smaller tracts. On the other hand, the intensity of demand, as measured by price and the number of transfers, declined during the second quarter of 1944 for tracts of all sizes. It is well to bear in mind that the lower price during the second quarter of 1944 may be partly due to relatively greater activity centering on tracts of low quality land with fair to poor improvements.

Table 11. - Price Trends of Different Sized Tracts of Farm Real Estate
Eight County Sample Area*, Ohio
4th Quarter 1943 Through the 2nd Quarter 1944

Size Class - Acres -	PERIOD		
	4th qtr. 1943	1st qtr. 1944	2nd qtr. 1944
	Percent of total sales		
10 to 29	17	14	19
30 to 49	15	19	15
50 to 99	44	40	39
100 or more	24	27	27
Total	100	100	100
	Average price per acre (dollars)		
10 to 29	163	175	156
30 to 49	94	115	97
50 to 99	87	98	83
100 or more	67	77	61
Total	81	92	76
	Relative change in price per acre (sales last quarter 1943 = 100)		
10 to 29	100	107	96
30 to 49	100	122	103
50 to 99	100	113	95
100 or more	100	115	91
Total	100	113	94

*Darko, Madison, Modina, Muskingum, Pike, Putnam, Seneca and Wayne.

